Guinness Atkinson
Dividend Builder Fund
Managers Update – October 2017

Quarter in review

Despite all the political noise in the third quarter of 2017, markets continued to focus on the improving economic data and healthy global economy. While the world worried about North Korea, markets cheered rising company earnings. While headlines focused on the rise of the far right in Germany, markets focused instead on the return of Chancellor Merkel and the strong health of the German economy. Even with the recent violence on the streets of Catalonia, global market reaction has so far been muted. As we have eluded to in previous updates, politics matters, but markets have been able to tune out the noise and maintain a focus on economics and company fundamentals.

In the U.S., the number of jobs available hit the highest level since 2000. In the UK, the unemployment rate is the lowest since 1975 and Eurozone consumer confidence is at its highest since 2001. Against this positive economic backdrop, central bankers have continued to indicate that they want to gradually reduce the level of monetary policy stimulus in place. The U.S. Federal Reserve (FED) announced that it will start the process of "quantitative tightening" and continues to suggest that another rate rise is on the cards for December. Meanwhile, the European Central Bank (ECB) looks set to announce a further slowdown in the pace of its own quantitative easing program, and even the Bank of England (BoE) has strongly suggested that it will raise interest rates before the year is out.

U.S. equity markets have had a remarkably smooth, volatile-free journey in 2017, with quarter three proving to be no exception. During the relentless climb, the largest pullback for U.S. equities so far this year has been a mere 3%. Healthy U.S. stock market gains are being driven by the fact that investors are seeing decent earnings growth come through from corporates, and towards the end of last month markets drew strength from renewed talk of tax reform from Washington. The Republicans unveiled a sweeping tax reform proposal aimed at lowering the corporate tax rate from 35% to 20%. If Congress passes such a cut, investors are hopeful that it would feed through to companies' bottom lines. However, the unpredictability of President Trump, coupled with his fragmented relationship with Congress, kept expectations at bay and markets seemed cautious of deju vu, with tax reform hopes dashed earlier in the year.

During September, the U.S. equity market was led by energy and financial stocks. The month saw a resurgence in the energy sector, helped by a sharp rise in the oil price. Brent Crude has continued to rise since hitting its low for the year-to-date on 21st June, and this has been buoyed by expectations that OPEC members will cap supply. As an interest-rate sensitive sector, financials rallied on expectations around the FED's forecast for another rate rise this year. Conversely the utilities sector was the weakest performer in September – and for the same reason – due to expectations around rising interest rates. Year to date, however, the growth story focuses on Tech stocks. The sector has seen strong secular growth regardless of the underlying economic conditions and has driven the market higher. Though there have been growing concerns regarding valuations, the sector has benefitted from investors' willingness to pay up for companies with robust earnings and revenue growth.

In Europe, GDP growth has continued to improve. While many predicated more moderate activity levels, Purchasing Managers Indices (PMIs) signaled a renewed impetus to already impressive rates of growth in output, order books and employment during September. Particularity impressive was the level of job creation, which rose to the highest level since 1997. Eurozone GDP is now forecast to rise 2.1% in 2017, up from 1.4% market consensus at the start of the year, and in response, ECB President Mario Draghi has led markets to expect an announcement in October of a further reduction in the pace of QE purchases.

From a sector perspective, the basic materials sector was the strongest performer, as commodity prices continued their rally helped by Chinese demand. This was followed by the industrials sector, which benefited from good global manufacturing growth indicators. The utilities sector led detractors this month followed by the telecommunications sector, amid a rise in government bond yields.

In the UK, the news continues to be dominated by Brexit negotiations. Theresa May signaled in Florence that she wants a transitional deal, but provided no further clarity on what the outcome would be after a transitional period. The economic outlook mirrors the political, and with both being somewhat uncertain. Very low unemployment is a clear positive, but there has also been low real wage growth. Consumer confidence remains weak, though despite all this, the Bank of England have made clear that they think an interest rate rise is warranted this year, with possibly more to come next year. Economic data continued to provide mixed signals around UK economic growth; the Office for National Statistics (ONS) revised down growth figures for the second quarter of the year. The Purchasing Managers Index, tracking sentiment in the services sector, indicated a slowdown in services growth during August, most evident in consumer-facing services.

Asian equity markets were mixed over September post strong gains year-to-date. This was against a backdrop of geopolitical tensions particularly relating to North Korea's weapon tests. China's equity market ended the month higher, despite a sell-off towards the end of the month on the back of a ratings downgrade from S&P due to high debt and property measures aimed at curbing rising house prices. However, Chinese economic activity data in August continued to suggest economic expansion, with industrial profits showing robust growth. In Japan, equities had a strong quarter as the acceleration in global growth helped lift exports. Abe's decision to call an election poses a relatively limited risk to the highly supportive monetary policy backdrop in Japan, explaining its failure to rock local equity markets.

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Performance Drivers

As the charts below illustrate, over the quarter, we have seen Europe and Asia lead the U.S. in terms of regional performance, and we have seen Energy, Materials and IT as the better performing sectors, whereas consumer staples have been the worst performing.

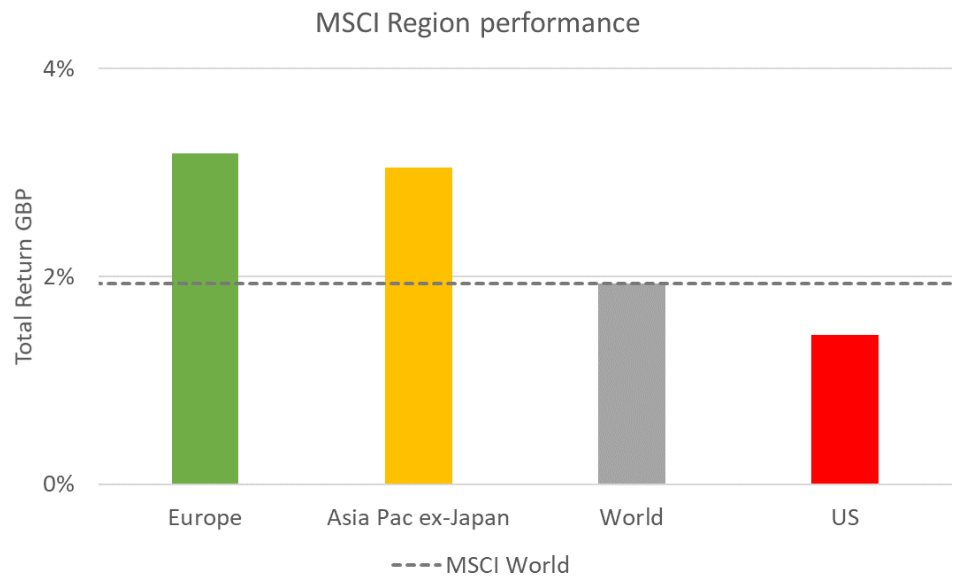

Chart 1: MSCI World Index geographic performance breakdown for Q3 2017. Source: Bloomberg

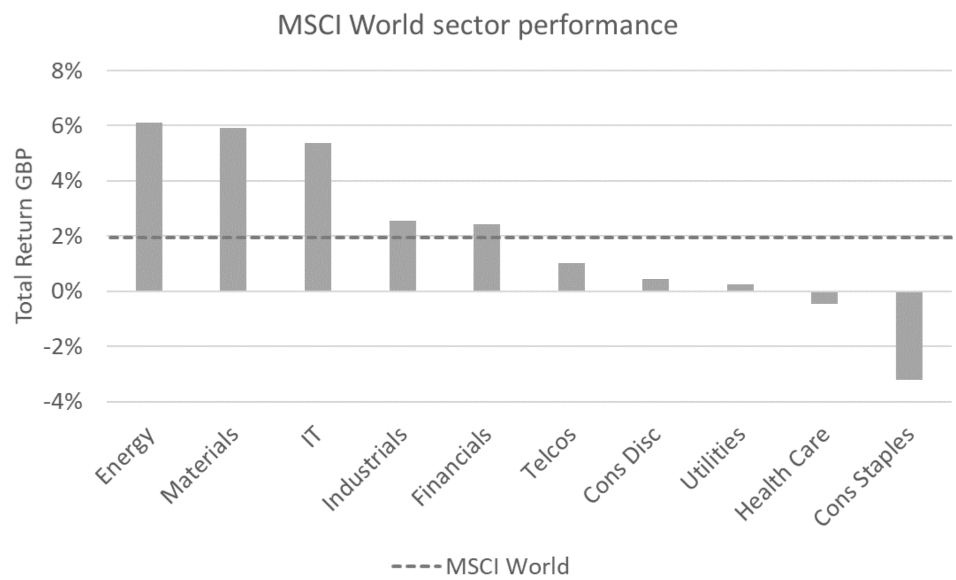

Chart 2: MSCI World Index sector performance breakdown for Q3 2017. Source: Bloomberg

In terms of geographic exposure, the largest difference between the fund and the benchmark is our exposure to the U.S. (as measured by country of domicile). The fund over the quarter had on average about 50% weighting to North America which compares to the index at about 60%. This was beneficial to the portfolio in the third quarter after the U.S. market lagged the others. The largest geographic overweight remains Western Europe (including the UK) which was a about 10% larger position than the benchmark over the quarter and contributed the most to the portfolio's active return.

The good IT performance is a continuation of a trend that has characterized the year to date, whereas Energy and Material stocks have reversed their recent trend and recovered relative underperformance seen in 2017 so far. As can be seen in the chart below, in the fund, our over and underweights did not benefit the portfolio, as this has been expectant given the fund has a quality and value bias. This differs to last quarter where we saw Healthcare and Consumer Staples leading the bounce back in defensive stocks as bond yields moved sideways rather than downwards – breaking a long-term trend – and there were hints of value coming back into favor with a rising rate and yield environment. It is also worth noting at this stage that the fund is benchmark aware though not benchmark driven, and weightings are based on a high conviction, bottom-up stock selection.

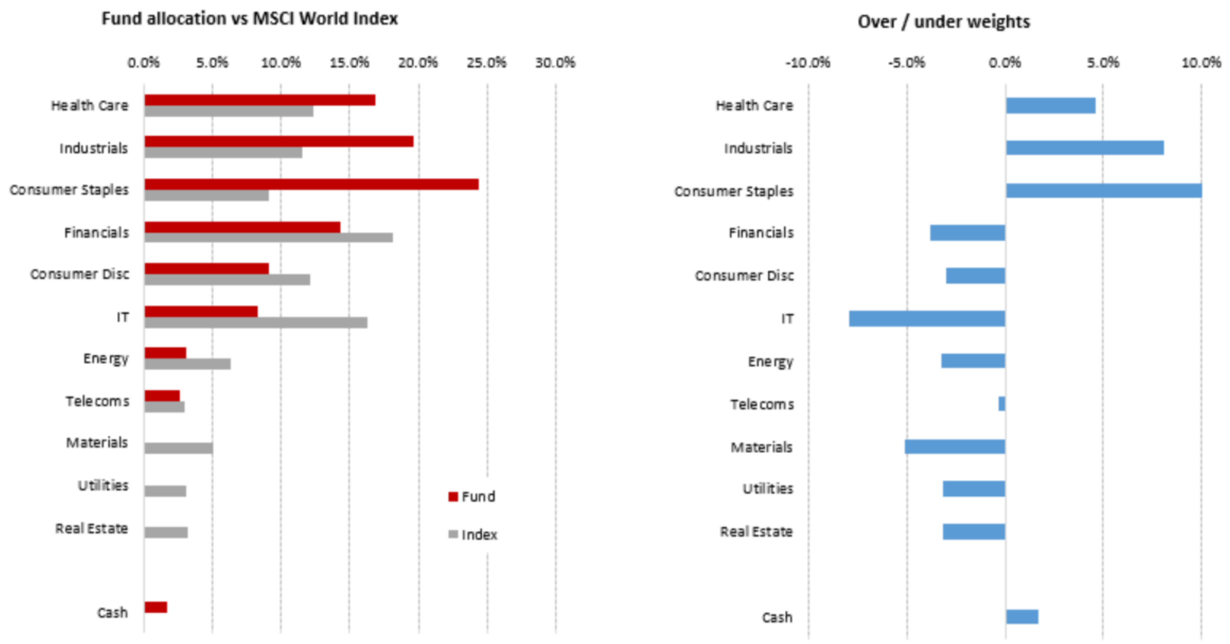

Chart 3: Sector breakdown of the fund versus MSCI World Index. Guinness Atkinson Asset Management, Bloomberg (data as at 09.30.2017)

Commenting further on the style, we have seen small caps outperform large caps which has been a drag for the fund, which only invests in mid to large-cap companies. This was due to the renewed hope of a corporation tax cut in the U.S. which would potentially help smaller, more domestically focused stocks compared to more globally diverse businesses. There was also no differentiation between growth and value stocks in the quarter. So far this year, growth companies have outperformed value, but most of this came in the first half of the year.

The two charts below illustrate this point.

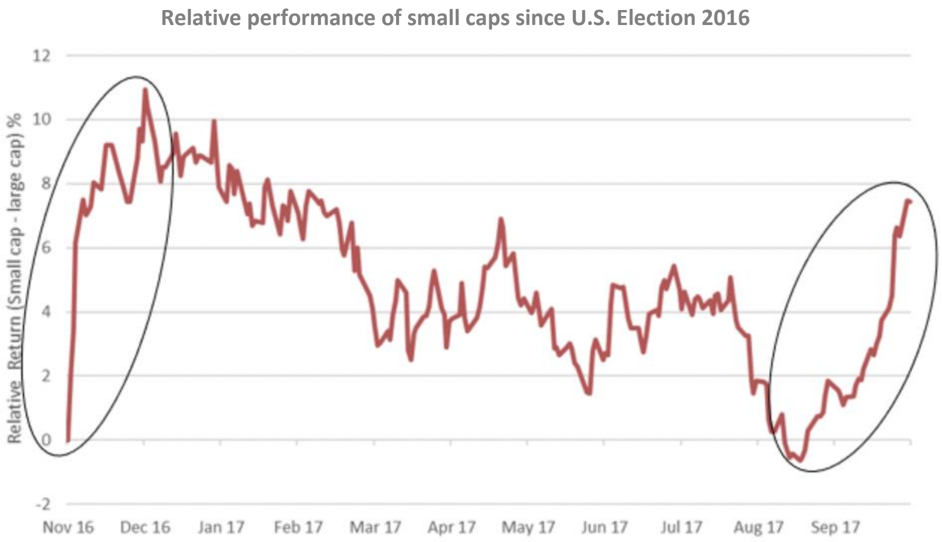

Chart 4: Percentage by which small caps have outperformed large caps. E.g. Small caps have outperformed large caps by 7.8% between November 2016 and October 2017.
Source: Guinness Atkinson Asset Management, MSCI, Bloomberg

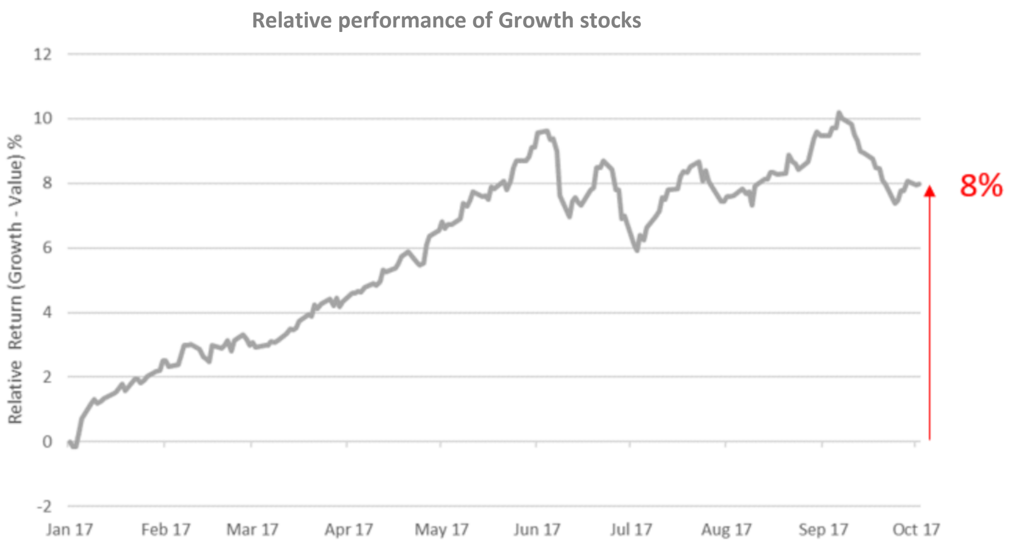

Chart 5: Percentage by which growth stocks have outperformed value stocks. E.g. Growth stocks have outperformed value stocks by 8% year-to-date.
Source: Guinness Atkinson Asset Management, MSCI, Bloomberg

Individual companies that performed well over Q3 were ANTA Sports, AbbVie and Royal Dutch Shell. Companies that had weaker performance over Q3 were TEVA Pharmaceutical, Mattel, and WPP.

ANTA Sports is one of our newest positions from last quarter so it was encouraging to see its stellar performance in Q3 (+29.0% in USD). ANTA Sports is based in China and has a strong cashflow return on investment over the last 10 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is looking to new brands too, such as South Korea's Kolon. Looking at the financials, ANTA Sports has very solid margins alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China, and improving economy, and has maintained a very strong balance sheet with a debt-to-equity ratio of less than 10%. It beat on EPS and revenue in August, reaffirming our conviction in the stock.

WPP is a company we have held in the portfolio since mid-2015 and was down 11.4% in Q3, in USD. The quarterly results were disappointing as recent guidance was downgraded, though the company operates in a cyclical industry and end clients have cut costs, which have subsequently flowed down to lower revenues for advertising companies such as WPP. The FMCG companies (Unilever, etc) have indeed lowered advertising spend in order to boost EPS growth as revenues struggle to grow. But this trend could reverse if consumer confidence grows and the economy picks up. The company also noted it will bring on a number of new clients towards the latter stage of 2017 so can grow by taking market share. Further, the CFROI is high and stable, operating margins are around 20%, the company has had positive sales growth every year since 2002 (including 2009), the dividend is well covered and growing, and the balance sheet is strong. We are therefore minded to maintain our holding in the company at this stage.

Changes to Portfolio

In the quarter we made two changes to the portfolio, whereby we bought British American Tobacco and Hengan International. Part of our one-in-one-out policy, we sold positions in Teva Pharmaceuticals and Mattel to make room for the new positions.

British American Tobacco – the global tobacco leader – was on our radar due to its stellar cashflow returns on invested capital, and strong dividend profile. It's increasing market share, sales and earnings, and its successful integration of the mega $65.4bn acquisition of Reynolds American, position the company well for future price and dividend growth. Despite a rising debt, the company has large piles of cash and good interest cover. We believe that the U.S. Food & Drug Administration's proposal to reduce nicotine in cigarettes has been overly discounted, and coupled with a sell-off following bribery allegations, this has provided us an attractive valuation to buy a new position. Integrating the Reynolds American deal and developing the "global drive brands" strategy is the company's focus for the next few years, as synergies from the acquisition are expected to be $400 million, adding 12% to Reynolds' 2016 net income. "Global drive brands" continue to boost BAT's market share at higher price points and increased investment in new-generation products will allow longer-term growth.

Hengan International is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and more recently it is seeing growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China, whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalised sales strategy to maintain its offline market share. Growing revenues, high stable margins, year-on-year earnings growth and a well-covered high dividend are some of the highlights making this a compelling addition to the fund.

We bought TEVA Pharmaceuticals in 2013 when the stock was trading at historic low multiples and the market was overly focused on "patent cliffs" – an issue which was associated with healthcare companies in general. Over the following two years the stock price recovered significantly as the expected pessimistic scenarios did not come about. Into 2016, however, the share price weakened as worries mounted regarding drug pricing in the U.S. and the company announced a significant M&A transaction, buying the generic drug business of Allergan for around $40bn. This was an exceptionally large figure for the company and raised questions as to whether TEVA had both over paid and overstretched. In the second half of 2016, the share price continued to fall, although we felt this was more sentiment-driven. However, the latest earnings release came as a shock to the market due to the severity of the announcement, which entailed significant write-downs associated with the Allergan business acquisition and a large cut to the dividend, in part to preserve cash to pay down debt and prevent certain covenants being breached. As a consequence of these poor results, and especially in light of the dividend cut, we were quick to sell our full position in TEVA.

Mattel is another company that has been a long term holding in the portfolio, though over the last two years it has had mixed results. Ultimately sales have declined due to strong competition and lack of innovation from the company and the COGS have not declined in parallel – meaning earnings have been hit. With such an operationally leveraged company it has been of particular disappointment that the management had not been able to tackle costs and arrest the decline in margins. Throughout this period the company did maintain its commitment to the dividend, even as payout ratios increased from what were relatively low levels. After only two years we saw another CEO change announced in February this year, whose background was Google and Groupon, and who had a focus on modernising their product offering. Through 2017 the company continued to disappoint but the dividend cut announced by the new CEO on the latest earnings call further added to market worries, and as a consequence we sold our position in the company.

Positioning

The below chart highlights the geographic weighting of the portfolio both in terms of where the companies held in the portfolio are domiciled (as you will see listed in our Factsheets, for example) and where their revenues come from – which can often be more illuminating.

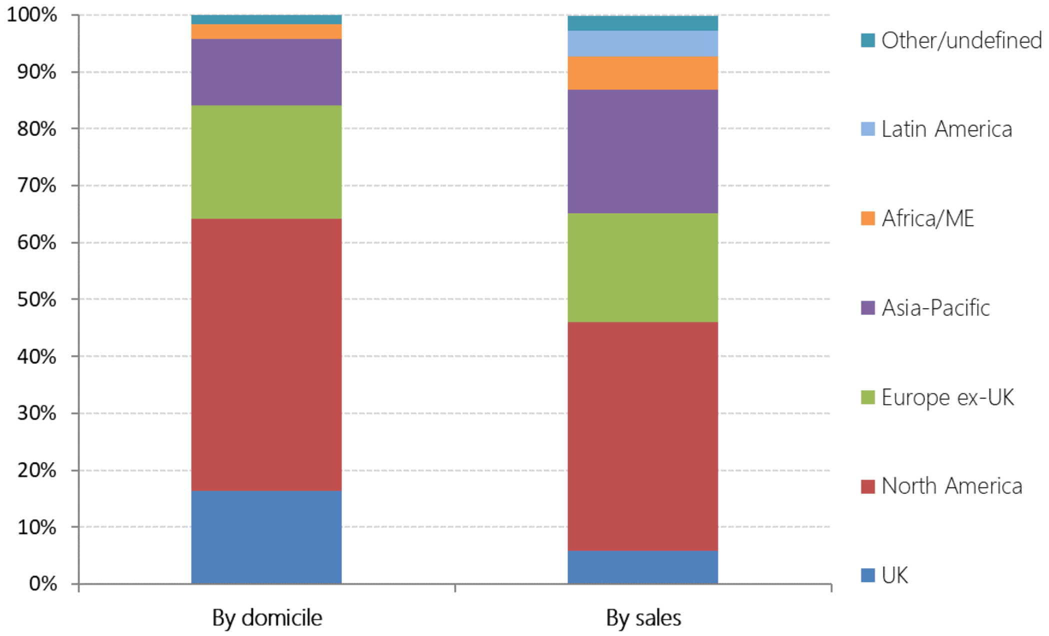

Chart 6: Geographic breakdown of the fund. Guinness Atkinson Asset Management, Bloomberg (data as at 06. 30.2017)

We would note two main points; (i) the fund has a lower exposure to the UK when considered in revenues (about 6%) versus by domicile (about 18%). This is because we have favoured UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia and emerging markets by revenues (about 22%) than the equivalent statistic as measured by domicile (about 12%).

In terms of sector weightings, the fund continues to have a zero weighting to utilities, materials, and real estate. The largest overweight positions are to consumer staples, industrials and healthcare.

The below two charts show how the exposure of the fund has evolved since we launched the strategy back in 2010.

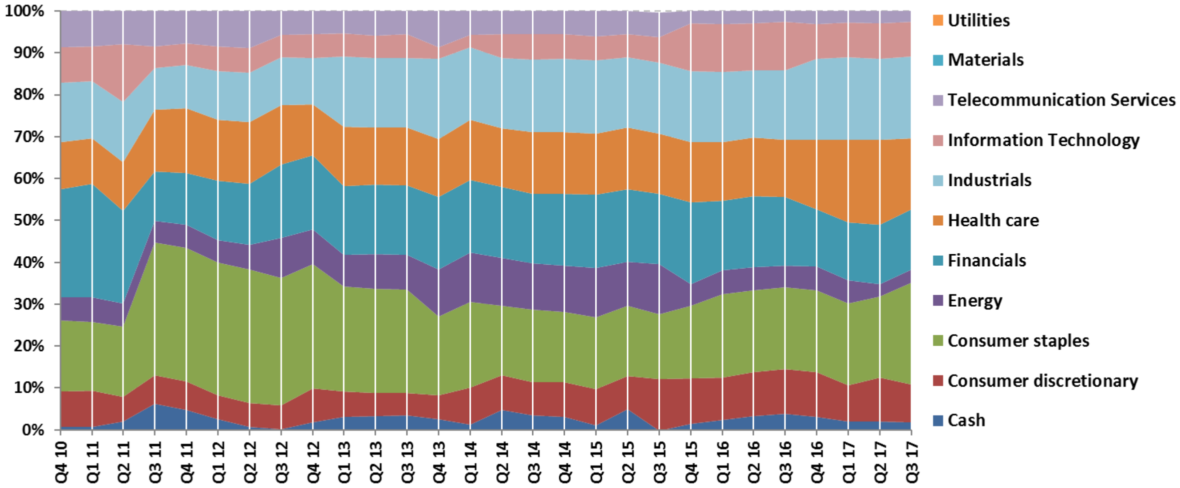

Chart 7: Sector breakdown of the fund since launch. Guinness Atkinson Asset Management, Bloomberg (data as of 09. 30.2017)

From a geographic point of view, we have reduced our U.S. exposure slightly, with the sale of TEVA pharmaceuticals and Mattel, and added to our Asia-Pacific exposure with the purchase of Hengan, and our UK exposure with British American Tobacco. Overall, our U.S. exposure remains the largest, albeit we are still about 11% underweight versus the benchmark.

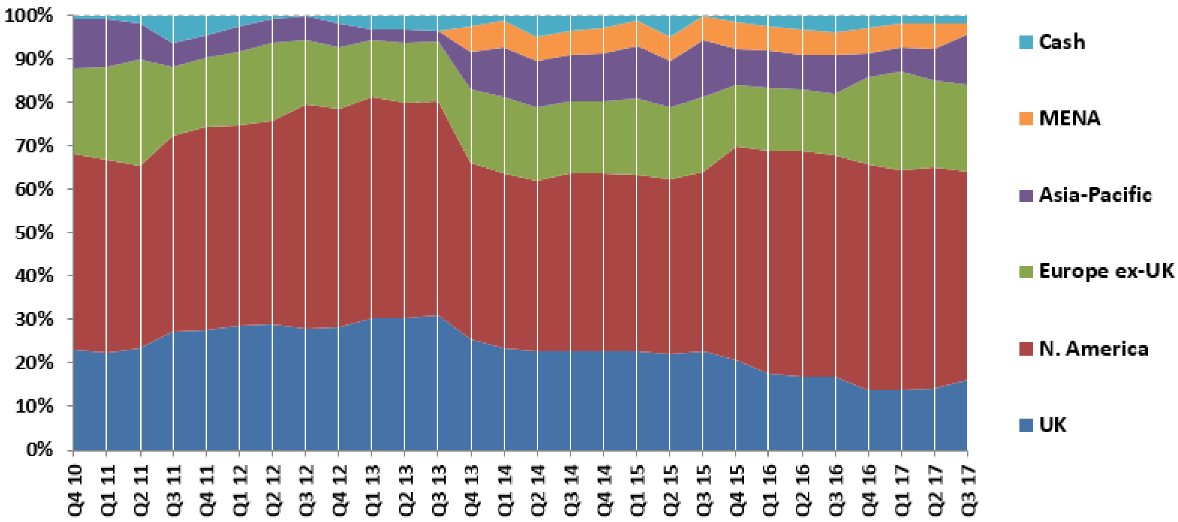

Chart 8: Geographic breakdown of the fund since launch. Guinness Atkinson Asset Management, Bloomberg (data as of 09. 30.2017)

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at similar value verses the index.

At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	19%	10%
	Weighted average debt / equity	59%	137%
Value	PE (2017e)	17.8	17.7
	FCF Yield (LTM)	6.8	4.8
Dividend	Dividend Yield (LTM)	2.7%	2.4%
	Weighted average payout ratio	63%	53%
Conviction	Number of stocks	35	1650
	Active share	92%	-

Chart 9: Portfolio metrics versus index. Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as at 09.30.2017)

Outlook

The fund at the end of the quarter was trading on 17.8x 2017 expected price to earnings, and 16.5x 2018 expected price to earnings; a premium of 0.6% and 1.9%, respectively to the broad market. We therefore see the portfolio as still providing reasonable value to our investors on these simple metrics, considering the quality and growth characteristics of our holdings. With interest rates set to rise and continuous geopolitical uncertainty around the globe, our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth.

We thank you for your continued support.

Portfolio managers
Dr Ian Mortimer
Matthew Page

Analysts
Joshua Cole
Sagar Thanki

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GUINNESS ATKINSON FUNDS

Performance

In September, the Dividend Builder Fund produced a total return of 2.01% versus the MSCI World Index return of 2.27%. The fund therefore underperformed the index by 0.26%.

as of 09.30.2017	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	14.79%	12.12%	5.86%	10.38%	10.01%
MSCI World Index	16.53%	18.85%	8.33%	11.65%	10.86%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.70% (net); 2.11% (gross)

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit https://www.gafunds.com/our-funds/dividend-builder-fund/#fund_performance or call (800) 915-6566. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.

The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 0.68% through June 30, 2018. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waives or absorbed, subject to the 0.68% expense cap.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Dividend Builder Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in the Fund. Please read the prospectus carefully before investing.

Mutual fund investing involves risk and loss of principal is possible. The Fund's strategy of investing in dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and could reduce or eliminate the payment of dividends in the future or the anticipated acceleration of dividends could not occur. The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets. Medium- and small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

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Top Fund Holdings as of 9/30/17

1	ANTA Sports Products Ltd	3.88%	6	Illinois Tool Works	3.10%
2	AbbVie Inc	3.52%	7	Novo Nordisk A/S	3.08%
3	Schneider Electric SE	3.16%	8	BAE Systems PLC	2.96%
4	NEX Group PLC	3.13%	9	Arthur J Gallagher & Co	2.96%
5	Danone	3.11%	10	VF Corp	2.95%

Current and future fund holdings and sector allocations are subject to change and risk, and are not recommendations to buy or sell any security.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed countries.

Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

VIX is the ticker symbol for the CBOE Volatility Index, a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).

VSTOXX is the Euro Stoxx 50 Volatility Index, a measure of the implied volatility of near term options on the EuroStoxx 50 index (Eurozone blue chip stock index).

S&P 500, the abbreviation for the Standard & Poor's 500, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE (New York Stock Exchange) or the NASDAQ (National Association of Securities Dealers Automated Quotations System). It is designed to measure the equity market performance of the U.S. stock market.

Ex-dividend is a classification of trading shares when a declared dividend belongs to the seller rather than the buyer.

One cannot invest directly in an index.

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